"This arrangement allows almost twice as many houses to be acquired than if the funds were used to purchase housing directly. It makes the use of government funds very cost efficient."

Stewart West,
Federal Minister for
Housing and Construction

. . ."Besides being affordable, common equity rental co-operatives will, I think, have the advantage of being much more secure and autonomous than other forms of renting."

Linda Bartolomei,
Tenant and resourcing
co-operative worker

"What this program is all about is economic good sense coupled with solid government backing."

Bill Moyle,
Chief Executive,
State Bank

"The Common Equity Rental Co-operative Program is an investment in the future. . . A determined few are doing the hard work to establish a real change in Australia's housing system."

John Cain,
Premier of Victoria

A DREAM FULFILLED

It has long been a dream of community housing groups to establish a non-profit, co-operative housing sector similar in nature to those in Canada and Western Europe.

With advice and backing from the Federal and State housing departments, Victorian community housing groups, Shelter and the Rental Housing Co-operative Advice Service (CHAS) have over the last 18 months laid the foundations for a broad-based, community housing sector which will hold perpetual title to its own housing stock, and manage its housing by headleasing on a long-term basis to tenant-controlled co-operatives.

Under the centrally co-ordinated Common Equity Rental Co-operative Program, Federal and State Government funds for community housing are mixed with loans raised in the private sector with the objective of maximising the amount of housing purchased or constructed.

Launched in May, 1986, purchasing has begun for the first, four common equity rental co-operatives at Broadmeadows, Geelong, Keilor and Werribee. Enough funds are available to establish a further three co-operatives in 1986/87, bringing the initial housing stock to approximately 60.

In 1973, Canada started a similar scheme, mixing both government and private money in a pilot program with just five, non-profit housing co-operatives. Today, over 40,000 households live in these common equity rental co-operatives with the total amount of housing produced annually being greater than that of the Victorian Ministry of Housing.

As in Canada, the infrastructure established for the common equity rental co-operative program in Victoria holds out the promise of being flexible, innovative and diverse — characteristics of a tenure form which is committed to democratic principles and thus responsive to the needs of those being housed. Its non-profit nature should also make it both accessible to those on low incomes, and cost effective.

Foundation stones

The key foundation stones of the community housing sector are the:

- *Common Equity Housing Finance Ltd.* whose primary roles are to raise wholesale loans from the private sector; oversee loan repayments by common equity rental co-operatives; and act as a focal point for the development of financial expertise within the community housing sector.
  A majority of the Company's directors must be elected by the co-operatives, ensuring it is accountable to those it serves.
- *Common Equity Program Assessment Committee* assesses which groups submitting to form co-operative should be funded by the finance company, and recommends these to Minister for Housing.
  It consists of a majority of representatives from existing common equity rental co-operatives, along with CHAS, and with input from the Victorian Ministry of Housing.
- *Central Region Housing Resource Co-operative Ltd.* provides technical support to common equity rental co-operatives in house purchasing/construction and administrative back-up. Based on Canadian experience, it also plays a vital role in training co-operative members so they acquire the necessary skills to ensure their co-operative's long term survival.

The resourcing co-operative works under contract to the Finance Company and is staffed by an architect, community development worker and a bookkeeper.

WHAT IS A COMMON EQUITY RENTAL CO-OPERATIVE?

They are small, community-based groups of between seven and twenty members who apply for funding to buy or construct housing scattered within one or two adjacent suburbs. To enable each group to become self managing on a democratic basis, the members are required to register as a co-operative.

In a rental co-operative, tenant members choose their own housing in the area they want to live; organise any maintenance; keep financial records; select new members; and make any policy decisions needed in the running of their co-operatives. They are their own landlord ensuring self esteem and security of tenure.

Rental co-operatives take the speculation out of housing. There is no landlord striving to make a profit. Unlike home ownership, there is no 'entry fee' deposit, and a member leaving a rental co-operative cannot take out any capital gains. Rent paid by a co-operative member is based solely on covering running costs and the loan schedule negotiated with the Common Equity Housing Finance Ltd.

Rental co-operatives offer one other great advantage over other tenure forms. As members live in reasonably close proximity within a suburb, friendships develop, and for isolated households — such as single parents — the co-operative can act as an extended family.

Pictured at the launch of the CEHF Company in May, 1986, are (from left) John Magowan, CEHF technical director; Jon Hickman CEHF Ministry of Housing director ; Lyn Newby, tenant and CEHF founding director; Jane Herington, CEHF Ministry of Housing director; Paul Fitzgerald, financial consultant for CEHF; Frank Wilkes, the Victorian Minister for Housing; Stewart West, the Federal Minister for Housing and Construction.

THE NEED FOR A COMMUNITY HOUSING SECTOR.

- One-third of Australians are unable to afford home ownership.
- The Federal Department of Housing and Construction estimates that over 700,000 people within the private rental market are living below the poverty line, half of whom are paying more than thirty three per cent of their disposable income in rent.
- The national waiting list for public housing stands at 160,000 households, and is expected to reach 250,000 households by 1990.

Clearly, there is an urgent need to develop new tenure forms which provide decent, secure and affordable housing for low income households.

POWERHOUSE FOR THE VICTORIAN COMMUNITY HOUSING SECTOR

Clearly Australia's non-profit housing sector will grow painfully slowly if it relies largely on grant funding — as is the case in most states in Australia. The attraction of additional, outside finance was seen as the 'major challenge' by the National Working Party on Private and Community Rental Housing.

In a deregulated financial environment, the capability exists to tailor financing packages to suit a borrower's needs — particularly in the case of large volume, wholesale loans. In such an environment, numerous opportunities should exist for a credible large-scale borrower who can offer low risk, mortgage-backed security. Unique to Victoria, the Common Equity Housing Finance Ltd. is so positioned, and is already exploring a number of loans fund avenues in the marketplace.

Functions of the Finance Company are to:

1. ***Raise and repay wholesale loans from the private sector:*** The Company has already closed a deal with the State Bank to provide low start, capital indexed loans totalling up to $1.3 million (See 'What is a Capital Indexed Loan'). Other sources of funds being investigated include superannuation schemes.

Economies of scale make wholesale loan raising attractive to both the lender and borrower. Loan repayments by co-operatives are also centralised through the Company. If defaulting occurs, a contingency fund is available to the Company as a safety net.

Financial institutions already approached by the Finance Company have remarked on the administrative efficiency of the loan management model chosen by the common equity rental co-operative sector.

2. ***Mix the loan finance with Federal Government grant money:*** Through the Local Government and Community Housing Program, $2.2 million in Federal Government grants for community housing in Victoria are being used as a 60% deposit on housing purchased within the common equity rental co-operative sector.

The high deposit to loan ratio ensures that:

- the lender has gilt-edged security of placement;
- economic incentives available to co-operative members are on a par with those provided to homeowners.

3. ***Purchase houses and lease them on a perpetual basis to common equity rental co-operatives:*** Effectively, each co-operative gains long term, secure, management control over housing in the area of their choice. Members enjoy all the advantages of owner occupiers except in their power to individually profit from the sale of the co-operative's housing.

Titles of properties are vested with the Company to:

- facilitate the raising of wholesale loans;
- ensure the retention of housing stock in perpetuity within the community housing sector.

The Company, then, also acts as a land bank, holding the whole of the property and land of the community housing sector in trust.

It is intended that every common equity rental co-operative will continue to pay a rent charge to the Company even after loan periods are completed. This will enable recoupment of the original upfront, deposit grant. More importantly, the charge paid by debt-free co-operatives will be put to work creating further expansion in the non profit, community housing sector and helping reduce cost-rents in newer co-operatives.

WHAT IS A CAPITAL INDEXED LOAN?

Equal payment mortgage

In a conventional mortgage, repayments are spread evenly over the life of the loan. While repayments remain constant in *money* terms, they must as a consequence, decline in *real* terms depending on the rate of inflation.

The higher the rate of inflation, the faster equal payments decline in real terms. The lender tends to compensate against this expected decline by raising the level of initial repayments (see Table I). A high cost hurdle is thus erected at the start of the loan term to protect the lender against the effects of future inflation. This 'front end loading' usually bars low income people from access to the loan.

Capital indexed loan

Conventional mortgage financing was designed at a time when there was little inflation and future movements in interest rates could be predicted with certainty. Plainly the world has changed. So too should mortgage instruments. By coming to grips with the reality of inflation, an indexed loan better fits what happens in the real world.

An indexed loan works quite appropriately from the premise that as prices and incomes rise due to inflation, so too will a borrower's capacity to repay. An indexed loan is structured to allow easy access at the start which is paid off in the future by repayments rising at no greater than the inflation rate. In real terms, repayments remain the same over the life of the loan (see Table II).

Plainly, in today's economic climate, it would be a brave lender who would predict that Australia's inflation rate would fall to zero in even the medium term. Current, conventional mortgage interest rates of 15.5% are premised on an assumed future inflation rate of 8-10%. Using Table I, it can be seen that the initial loan repayments on a conventional $40,000 mortgage at an expected inflation rate of 8% are $590 per month compared with $260 per month for a similar indexed mortgage.

TABLE I
EFFECT OF INFLATION ON A TRADITIONAL MORTGAGE

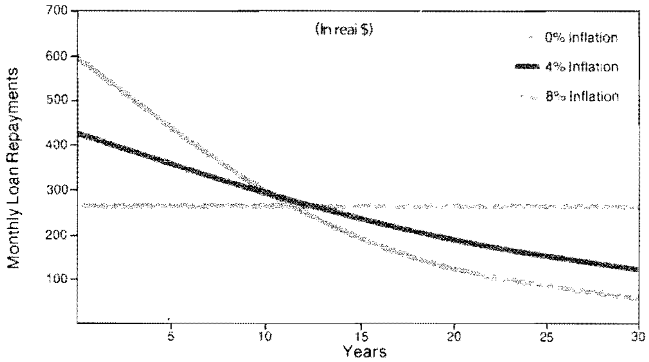
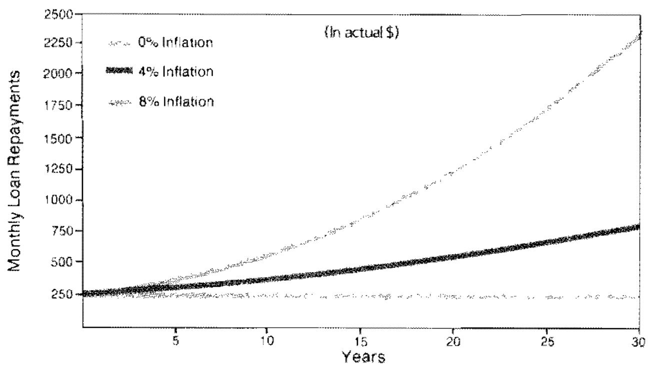


Table I shows the effect of inflation on payments under a traditional, credit foncier mortgage assuming a $40,000 mortgage over a 30 year term at a real interest rate of 6%. Table II shows the effect of inflation on an indexed mortgage using the same parameters.

TABLE II
EFFECT OF INFLATION ON AN INDEXED MORTGAGE



COMMON EQUITY HOUSING FINANCE LTD
BOARD OF DIRECTORS

Combining a blend of experience in managing co-operatives and financial skills, all but two directors appointed by the Director of Housing are either elected or nominated by the common equity rental co-operatives. The co-operatives are the only shareholders with voting rights in the Company.

Jane Herington (Ministry of Housing director): manager of Program Development Branch; former director of the Fitzroy Collingwood Rental Housing Association Ltd;

Rob Carter (Ministry of Housing director): deputy director of the Ministry of Housing, former adviser to the Minister for Housing, and senior lecturer at the University of Melbourne.

Joan Doyle (community director): community housing activist with wide experience in the formation of rental co-operatives;

Helen Linham (community director): mother and jack of all trades; member of the Unity Common Equity Rental Housing Co-operative.

Alison Lansley (technical director): chief legal officer with the National Companies and Securities Commission;

John Magowan (technical director): stockbroker with McIntosh, Hamson, Hoare and Govette Ltd; helped establish Victorian secondary mortgage market while in the Department of Management and Budget;

Kaye Lloyd (community director): volunteer worker with retarded children; member of Keilor Common Equity Rental Housing Co-operative;

Gib Wettenhall (community director): researcher and lawyer; involved in the establishment of both the leasing co-operatives and common equity rental co-operative program.

Joseph Connellan (Principal Executive Officer and director): has worked with Law Institute of Victoria and as Property and Mortgage Trust Fund Manager, with Trustees Executors and Agency Company Ltd.

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